

**REPORT OF THE AUDIT OF THE
SPENCER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SPENCER COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Spencer County Fiscal Court for fiscal year ended June 30, 2010.

We have issued unqualified opinions on the governmental activities and each major fund of Spencer County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$3,831,341 as of June 30, 2010. The fiscal court had unrestricted net assets of \$843,740 in its governmental funds as of June 30, 2010, with total net assets of \$3,831,341. The fiscal court had total debt principal as of June 30, 2010 of \$738,480 with \$119,480 due within the next year.

Report Comment:

2010-01 The County Should Implement Adequate Segregation Of Duties Over Receipts And Reconciliations

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Bill Karrer, Spencer County Judge/Executive

Honorable David Jenkins, Former Spencer County Judge/Executive

Members of the Spencer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Spencer County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Spencer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Spencer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Spencer County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Members of the Spencer County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2011 on our consideration of Spencer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2010-01 The County Should Implement Adequate Segregation Of Duties Over Receipts And Reconciliations

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

January 19, 2011

SPENCER COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

David Jenkins	County Judge/Executive
David Henry	Magistrate
Hobert Judd	Magistrate
John Riley	Magistrate
Bill Drury	Magistrate
David Goodlett	Magistrate

Other Elected Officials:

Ruth Ann Hollan	County Attorney
David Houghlin	Jailer
Judy Puckett	County Clerk
Becky M. Robinson	Circuit Court Clerk
Steve Coulter	Sheriff
Kim Stump	Property Valuation Administrator
Danny Hilbert	Coroner

Appointed Personnel:

Doug Williams	County Treasurer
Karen Curtsinger	Finance Officer/Deputy Judge

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SPENCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

SPENCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 843,740
Total Current Assets	<u>843,740</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	297,820
Buildings and Building Improvements	1,533,431
Equipment	595,604
Vehicles	304,012
Infrastructure Assets - Net of Depreciation	<u>995,214</u>
Total Noncurrent Assets	<u>3,726,081</u>
Total Assets	<u>4,569,821</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations	<u>234,480</u>
Total Current Liabilities	<u>234,480</u>
Noncurrent Liabilities:	
Financing Obligations	<u>504,000</u>
Total Noncurrent Liabilities	<u>504,000</u>
Total Liabilities	<u>738,480</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,987,601
Unrestricted	<u>843,740</u>
Total Net Assets	<u>\$ 3,831,341</u>

The accompanying notes are an integral part of the financial statements.

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SPENCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

SPENCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,956,768	\$ 300,571	\$ 627,230	\$
Protection to Persons and Property	1,287,654	576,121	102,451	
General Health and Sanitation	140,534	44,331	27,091	
Social Services	48,907			
Recreation and Culture	126,208			
Roads	659,189	186	798,117	
Debt Service	46,004			
Capital Projects	1,020,423			1,508,893
Total Governmental Activities	5,285,687	921,209	1,554,889	1,508,893

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

In Lieu of Taxes

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SPENCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses)
Revenues and
Changes in Net Assets

Governmental Activities	
<hr/>	
\$	(1,028,967)
	(609,082)
	(69,112)
	(48,907)
	(126,208)
	139,114
	(46,004)
	<hr/> 488,470
	<hr/> (1,300,696)

	784,218
	29,724
	119,115
	1,221,854
	20,646
	29,865
	148,342
	<hr/> 8,484
	<hr/> 2,362,248
	<hr/> 1,061,551
	<hr/> 2,769,790
\$	<hr/> <hr/> 3,831,341

The accompanying notes are an integral part of the financial statements.

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SPENCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

SPENCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 620,410	\$ 188,639	\$ 34,691	\$ 843,740
Total Assets	<u>\$ 620,410</u>	<u>\$ 188,639</u>	<u>\$ 34,691</u>	<u>\$ 843,740</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 28,791	\$ 1,268	\$ 3,616	\$ 33,675
Unreserved:				
General Fund	591,619			591,619
Special Revenue Funds		<u>187,371</u>	<u>31,075</u>	<u>218,446</u>
Total Fund Balances	<u>\$ 620,410</u>	<u>\$ 188,639</u>	<u>\$ 34,691</u>	<u>\$ 843,740</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 843,740
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	6,227,524
Depreciation	(2,501,443)
Long-term Debt from Financing Obligations Is Not Due and	
Payable in the Current Period and, Therefore, Is Not	
Reported in the Funds.	<u>(738,480)</u>
Net Assets Of Governmental Activities	<u>\$ 3,831,341</u>

The accompanying notes are an integral part of the financial statements.

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SPENCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

SPENCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	Jail Fund	Total Governmental Funds
REVENUES				
Taxes	\$ 2,141,601	\$	\$	\$ 2,141,601
In Lieu Tax Payments	29,865			29,865
Excess Fees	20,646			20,646
Licenses and Permits	272,971			272,971
Intergovernmental	2,194,947	798,117	89,363	3,082,427
Charges for Services	575,786			575,786
Miscellaneous	118,420	97,038		215,458
Interest	7,799	648	38	8,485
Total Revenues	<u>5,362,035</u>	<u>895,803</u>	<u>89,401</u>	<u>6,347,239</u>
EXPENDITURES				
General Government	1,220,790	6,500		1,227,290
Protection to Persons and Property	1,089,627		253,737	1,343,364
General Health and Sanitation	138,673			138,673
Social Services	45,643			45,643
Recreation and Culture	106,404			106,404
Roads		701,089		701,089
Debt Service	245,617	628,703		874,320
Capital Projects	1,020,423			1,020,423
Administration	556,773	115,133	18,244	690,150
Total Expenditures	<u>4,423,950</u>	<u>1,451,425</u>	<u>271,981</u>	<u>6,147,356</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>938,085</u>	<u>(555,622)</u>	<u>(182,580)</u>	<u>199,883</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		527,435	205,000	732,435
Transfers To Other Funds	(732,435)			(732,435)
Total Other Financing Sources (Uses)	<u>(732,435)</u>	<u>527,435</u>	<u>205,000</u>	
Net Change in Fund Balances	205,650	(28,187)	22,420	199,883
Fund Balances - Beginning (Restated)	414,760	216,826	12,271	643,857
Fund Balances - Ending	<u>\$ 620,410</u>	<u>\$ 188,639</u>	<u>\$ 34,691</u>	<u>\$ 843,740</u>

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

SPENCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 199,883
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets is Allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	432,913
Depreciation Expense	(394,861)
Net Book Value of Capital Assets Disposed	(4,700)
The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.	
Financing and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.	
Financing Obligations Principal Payments	<u>828,316</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,061,551</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Spencer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no blended or discretely presented component units.

C. Spencer County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Spencer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Spencer County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Spencer County does not have any business-type activities to report in its financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Revenue Funds:

The Road Fund and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-50
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Spencer County Fiscal Court: The Spencer County Tourism Commission and the Spencer County Library.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations and Joint Venture (Continued)

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Spencer County Fiscal Court and the City of Taylorsville: Taylorsville-Spencer County Community Industrial Development Authority.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 204,600	\$	\$	\$ 204,600
Construction in Progress				
Total Capital Assets Not Being Depreciated	204,600			204,600
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	2,010,660			2,010,660
Equipment	900,326	137,092		1,037,418
Vehicles	1,071,335	83,518	(68,864)	1,085,989
Land Improvements	130,312			130,312
Infrastructure	1,546,242	212,303		1,758,545
Total Capital Assets Being Depreciated	5,658,875	432,913	(68,864)	6,022,924
Less Accumulated Depreciation For:				
Buildings and Building Improvements	(444,524)	(32,705)		(477,229)
Equipment	(346,348)	(95,466)		(441,814)
Vehicles	(761,660)	(84,481)	64,164	(781,977)
Land Improvements	(30,737)	(6,355)		(37,092)
Infrastructure	(587,477)	(175,854)		(763,331)
Total Accumulated Depreciation	(2,170,746)	(394,861)	64,164	(2,501,443)
Total Capital Assets, Being Depreciated, Net	3,488,129	38,052	(4,700)	3,521,481
Governmental Activities Capital Assets, Net	\$ 3,692,729	\$ 38,052	\$ (4,700)	\$ 3,726,081

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 37,829
Protection to Persons and Property	89,882
General Health and Sanitation	1,861
Social Services	3,264
Recreation and Culture	19,804
Roads, Including Depreciation of General Infrastructure Assets	<u>242,221</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 394,861</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt

A. Financing Obligation – Courthouse Renovation

On September 21, 2001, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$900,625. The purpose of the financing was for the renovation of the courthouse. The term for this agreement was 10 years with the balance to be paid in full January 20, 2011. The Administrative Office of the Courts (AOC) pays \$29,850 directly to the trustee for KACoLT, National City Bank each February and August. The principal balance was \$109,480 as of June 30, 2010. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2011	\$ 109,480	\$ 2,568
Totals	<u>\$ 109,480</u>	<u>\$ 2,568</u>

B. Financing Obligation – Building Renovation

On July 7, 2005, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$250,000. The purpose of the financing was for the renovation of a building for use as an office for the planning and zoning department and for use as the fiscal court meeting room. The term for this agreement was 15 years with the balance to be paid in full July 20, 2020. The principal balance was \$200,000 as of June 30, 2010. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2011	\$ 15,000	\$ 7,970
2012	15,000	7,488
2013	15,000	6,853
2014	15,000	6,220
2015	15,000	5,585
2016-2020	105,000	15,191
2021	<u>20,000</u>	<u>93</u>
Totals	<u>\$ 200,000</u>	<u>\$ 49,400</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

C. Financing Obligation – Road Equipment

On April 26, 2007, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$144,000. The purpose of the financing was for the purchase of a patcher, 6,000-gallon tank, and a truck. The term for this agreement was 11 years with the balance to be paid in full July 20, 2017. The principal balance was \$114,000 as of June 30, 2010. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2011	\$ 10,000	\$ 4,603
2012	10,000	4,266
2013	15,000	3,642
2014	15,000	3,006
2015	15,000	2,369
2016-2018	49,000	2,921
Totals	<u>\$ 114,000</u>	<u>\$ 20,807</u>

D. Financing Obligation – Road Maintenance

On September 17, 2007, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$500,000. The purpose of the financing was for road maintenance. The term for this agreement was 5 years with the balance to be paid in full July 20, 2012. The principal balance was \$315,000 as of June 30, 2010. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2011	\$ 100,000	\$ 9,392
2012	105,000	5,164
2013	110,000	406
Totals	<u>\$ 315,000</u>	<u>\$ 14,962</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 1,566,796	\$	\$ 828,316	\$ 738,480	\$ 234,480
Governmental Activities					
Long-term Liabilities	<u>\$ 1,566,796</u>	<u>\$ 0</u>	<u>\$ 828,316</u>	<u>\$ 738,480</u>	<u>\$ 234,480</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$45,608 in interest on financing obligations.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2008 was \$396,087, FY 2009 was \$365,460, and FY 2010 was \$418,624.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 6. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

On March 15, 2010, the Spencer County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2010, Spencer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The General Fund beginning balance was increased by \$8,742 to account for prior year voided checks, while the Road Fund was decreased by \$1,541 to account for prior year errors. Beginning balance for capital assets was increased by \$1,348 to account for errors in prior year depreciation calculations.

SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,942,000	\$ 2,121,800	\$ 2,141,601	\$ 19,801
In Lieu Tax Payments	10,700	10,700	29,865	19,165
Excess Fees	10,000	20,600	20,646	46
Licenses and Permits	221,000	292,500	272,971	(19,529)
Intergovernmental	577,675	2,240,533	2,135,247	(105,286)
Charges for Services	570,000	570,000	575,786	5,786
Miscellaneous	90,800	109,400	118,420	9,020
Interest	4,000	6,200	7,799	1,599
Total Revenues	<u>3,426,175</u>	<u>5,371,733</u>	<u>5,302,335</u>	<u>(69,398)</u>
EXPENDITURES				
General Government	1,184,890	1,292,245	1,220,790	71,455
Protection to Persons and Property	965,921	1,134,318	1,089,627	44,691
General Health and Sanitation	161,000	161,500	138,673	22,827
Social Services	36,500	49,300	45,643	3,657
Recreation and Culture	121,600	124,453	106,404	18,049
Debt Service	259,400	259,550	185,917	73,633
Capital Projects	80,000	1,047,000	1,020,423	26,577
Administration	618,164	731,439	556,773	174,666
Total Expenditures	<u>3,427,475</u>	<u>4,799,805</u>	<u>4,364,250</u>	<u>435,555</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,300)</u>	<u>571,928</u>	<u>938,085</u>	<u>366,157</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		12,500		(12,500)
Transfers To Other Funds	<u>(248,700)</u>	<u>(901,128)</u>	<u>(732,435)</u>	<u>168,693</u>
Total Other Financing Sources (Uses)	<u>(248,700)</u>	<u>(888,628)</u>	<u>(732,435)</u>	<u>156,193</u>
Net Changes in Fund Balance	<u>(250,000)</u>	<u>(316,700)</u>	<u>205,650</u>	<u>522,350</u>
Fund Balance - Beginning (Restated)	<u>250,000</u>	<u>416,700</u>	<u>414,760</u>	<u>(1,940)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 100,000</u>	<u>\$ 620,410</u>	<u>\$ 520,410</u>

SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 701,666	\$ 847,966	\$ 798,117	\$ (49,849)
Miscellaneous	1,500	97,500	97,038	(462)
Interest	3,500	3,500	648	(2,852)
Total Revenues	706,666	948,966	895,803	(53,163)
EXPENDITURES				
General Government	31,226	31,226	6,500	24,726
Roads	495,140	1,052,060	701,089	350,971
Debt Service	60,000	685,458	628,703	56,755
Administration	170,300	124,450	115,133	9,317
Total Expenditures	756,666	1,893,194	1,451,425	441,769
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(50,000)	(944,228)	(555,622)	388,606
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		627,428	527,435	(99,993)
Total Other Financing Sources (Uses)		627,428	527,435	(99,993)
Net Changes in Fund Balance	(50,000)	(316,800)	(28,187)	288,613
Fund Balance - Beginning (Restated)	50,000	216,800	216,826	26
Fund Balance - Ending	\$ 0	\$ (100,000)	\$ 188,639	\$ 288,639

SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 85,600	\$ 87,100	\$ 89,363	\$ 2,263
Miscellaneous	300	300		(300)
Interest	200	200	38	(162)
Total Revenues	86,100	87,600	89,401	1,801
EXPENDITURES				
Protection to Persons and Property	318,000	353,475	253,737	99,738
Administration	19,800	20,025	18,244	1,781
Total Expenditures	337,800	373,500	271,981	101,519
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(251,700)	(285,900)	(182,580)	103,320
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	248,700	273,700	205,000	(68,700)
Total Other Financing Sources (Uses)	248,700	273,700	205,000	(68,700)
Net Changes in Fund Balance	(3,000)	(12,200)	22,420	34,620
Fund Balance - Beginning	3,000	12,200	12,271	71
Fund Balance - Ending	\$ 0	\$ 0	\$ 34,691	\$ 34,691

SPENCER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* differs from the *Budgetary Comparison Schedule* for the General Fund in intergovernmental revenue and debt service by \$59,700 due to payments by the Administrative Office of the Courts directly to the trustee for debt service.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bill Karrer, Spencer County Judge/Executive
Honorable David Jenkins, Former Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities and each major fund of Spencer County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 19, 2011. Spencer County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Spencer County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spencer County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Spencer County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Spencer County Fiscal Court, others within the entity, and the Department for Local Government, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 19, 2011

**SPENCER COUNTY
COMMENT AND RECOMMENDATION
For The Year Ended June 30, 2010**

**SPENCER COUNTY
COMMENT AND RECOMMENDATION
Fiscal Year Ended June 30, 2010**

INTERNAL CONTROL - MATERIAL WEAKNESS

2010-01 The County Should Implement Adequate Segregation Of Duties Over Receipts And Reconciliations

During our review of internal controls, we noted that the Treasurer posts receipts to the ledger, prepares bank deposits, prepares bank reconciliations, and prepares financial reports. Adequate segregation of duties would prevent the same person from having a significant role in the processing, recording, and reporting of receipts. Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the cash collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

We recommend the County continue to review their policies and procedures to identify ways in which segregation of duties could be improved. Specifically the following procedures could be implemented to strengthen the internal control process:

- An independent person, such as the Judge Executive, should open bank statements and review them for unusual items. The person should initial the bank statement to document their review.
- An independent person, such as the Judge Executive, should review the treasurer's bank reconciliations for accuracy and timeliness. The person should initial the bank reconciliation to document their review.

Judge/Executive's Response: No response.

